



Early Journal Content on JSTOR, Free to Anyone in the World

This article is one of nearly 500,000 scholarly works digitized and made freely available to everyone in the world by JSTOR.

Known as the Early Journal Content, this set of works include research articles, news, letters, and other writings published in more than 200 of the oldest leading academic journals. The works date from the mid-seventeenth to the early twentieth centuries.

We encourage people to read and share the Early Journal Content openly and to tell others that this resource exists. People may post this content online or redistribute in any way for non-commercial purposes.

Read more about Early Journal Content at <http://about.jstor.org/participate-jstor/individuals/early-journal-content>.

JSTOR is a digital library of academic journals, books, and primary source objects. JSTOR helps people discover, use, and build upon a wide range of content through a powerful research and teaching platform, and preserves this content for future generations. JSTOR is part of ITHAKA, a not-for-profit organization that also includes Ithaka S+R and Portico. For more information about JSTOR, please contact support@jstor.org.

LOWER TELEPHONE RATES FOR NEW YORK CITY

BY E. H. OUTERBRIDGE,

Chairman of the Committee on Public Utilities of the Merchants
Association of New York.

In 1905 complaints were made to the Merchants Association by numbers of its members alleging that telephone charges were excessive. The association thereupon appointed a special committee to investigate the subject.

This committee gathered a large amount of data including the service rates for telephones in the principal cities of the United States. A great diversity was found to exist in these rates, as well as in the principles upon which they were based. The committee reached the conclusion that a comparison of rates without knowledge of the costs of operation and of the particular circumstances relating to the various localities would afford no sound basis for testing the equity of the rates in this city. The committee therefore entered upon negotiations directly with the telephone company, with the result that the company consented to give the committee's accountants access to its books and records for the purpose of learning the relation of the company's net earnings to the costs of operation and to the value of its property. The committee further stated that in its opinion the net earnings of the company (including dividends, provision for depreciation and reserve for contingencies) should be limited to 10 per cent upon the value of the property, and the company accepted this as a basis for a revision of its rates.

The committee's accountants made an examination of the company's books covering their operations during a period of sixteen years and found that the net earnings during that time had averaged between 11 and 12 per cent, but that during the year previous to that in which the examination was made the net earnings had been approximately 15 per cent. The company thereupon, acting in concert with the association's committee, prepared a new schedule of rates, adjusted, as near as practicable, to reduce their earnings to the stipulated 10 per cent. The aggregate amount of the reductions for the year 1906 was about \$1,525,000.

Although all the members of the committee were very large users of the telephone company's service at the lowest rate then prevailing, it was the opinion of the committee that the reductions then made should mainly apply for the benefit of small users, and the maximum rate was therefore reduced from 10 cents per message to 8 cents per message in the case of measured service, with a corresponding reduction in those local areas where flat rate service prevailed. It was the view of the committee that as low a rate as possible should be made for small users in order to stimulate the use of the telephone by the class who would otherwise be debarred by its cost. Beginning with the maximum stated the successive rates at the higher part of the scale were likewise graduated downward, but no reduction was made in the message rate charged the larger users, although a concession in the annual charges for extra equipment was allowed.

The rates as revised in 1906 were received with very general public approbation, as was also the method of reaching an agreement by negotiation rather than by hostile legal proceedings.

In 1907 the public service commission's law was passed, whereby railroads, gas and electric companies were subjected to public regulation, but telephone companies were not included. Public sentiment in favor of subjecting telephone companies to regulation by the public service commission rapidly developed, and also manifested itself by the introduction in the legislature of successive bills for arbitrarily fixing the rates which the New York Telephone Company might charge. The maximum rate usually specified in these bills was 5 cents per message. Although these measures received considerable support none of them became law, but they had the effect of crystallizing the demand for public regulation of the telephone company's charges and in 1910 the public service commission's act was amended to include the regulation of telephone companies.

For a year or two after the telephone company was subjected to the public service commission's act no proceedings of importance were brought against it, although public dissatisfaction with its system of toll charges was steadily growing. Owing to the large area covered by the city of New York and the adjacent districts, as well as to the topography and distribution of the population, the zone system had been put in operation by the company. Under this system subscribers were entitled to the use of telephone service at

the regular message rate only within the zone within which they were respectively located, and an additional toll charge was exacted for communication with other zones.

The demand for a 5 cent maximum rate of service, co-extensive with the city became frequent. The matter was first brought to the public service commission in the form of a complaint against the toll charges for communication between Manhattan and Brooklyn. The zone system and the exaction of an excess charge for a communication between the different zones were sustained by the public service commission as reasonable, but certain of the zones were enlarged and the amount of the charge between Manhattan and Brooklyn materially reduced.

Meanwhile bills regularly appeared in the legislature seeking to fix the maximum charge of 5 cents per message, abolishing the zone system, and making the service for a single charge co-extensive with the city. Such a bill in 1913 passed both houses of the legislature, but owing to a defect in its form was withdrawn when before the governor.

Immediately thereafter two proceedings against the telephone company were brought before the Public Service Commission, the first seriously to attack the company's schedule of rates. One of these bills proposed to reduce the maximum charge per message from 8 cents to 5 cents and to abolish the zone system. The other proposed to reduce greatly the annual charge for extension telephones. A great deal of publicity was given to these proceedings and numerous small civic associations were induced to give their approval to the movement.

The Merchants Association was requested, among others, also to lend its support. A careful study of the scope of the pending proceedings was thereupon made, and it was found that, although sweeping reductions were demanded, the scope of the proceeding was in reality so limited as to deal very inadequately and unjustly with the situation. The reduction proposed would have affected only the small users of the telephone service who would have received a very large concession in rates, while large users would have received no benefit whatever. The latter class of users pay a message rate of 3 cents in addition to which they pay rental charges for extra equipment. Taking into consideration these rental charges, it was found that a subscriber having a 3 cent rate and using 4800

messages would in reality pay $5\frac{1}{4}$ cents per message, while a subscriber using but 600 calls per year would pay but 5 cents. As a result of the change proposed by the complaint, therefore, the large user would actually pay at a higher rate than the small user.

The association's committee further found that there were substantial differences in the conditions, and presumably in the cost of supplying service to the various classes of users, and that these differences in conditions and costs warranted a graduated scale of rates determined with relation to the varying costs.

The committee was further convinced that no readjustment of any part of the company's scale of charges could be intelligently made until the company's property had been appraised, the extent of that property applied to the service of various classes of users determined, and the cost of supplying each class of service fully developed. Instead, therefore, of supporting the pending proceedings to which it found such serious objections, its committee took the matter up directly with the New York Telephone Company, with the purpose of establishing a basis for a more comprehensive proceeding, which should cause a complete revision of the company's scale of charges based upon the cost of supplying each class of service.

The committee deemed that the first step in such a proceeding would be a valuation of the company's property, both with reference to its aggregate and to the portions used by different classes of users. It was found that the Public Service Commission was without funds to undertake so large and extensive a task, and application was therefore made to the Interstate Commerce Commission, which body was about to begin, under an act of Congress, an appraisal of the property of all public carriers. It was found however, that the Interstate Commerce Commission could not at the time definitely state when it could undertake the proposed appraisal. The Public Service Commission of this state, moreover, was unwilling to assent to the proposal that the appraisal should be made by the Interstate Commerce Commission, and it was also unwilling to suspend the pending proceedings unless such an appraisal were provided for. In view of the fact that the legislature had made no appropriation for such expenses, and further, that hostile bills reducing the rate to 5 cents would certainly be pressed in the legislature, this association suggested to the New York Telephone Company that it voluntarily consent to an appraisal by the public service

commission, that it pay the expenses thereof, and that, pending a general revision of its rates, it should make an allowance of 10 per cent upon certain of its existing charges.

These suggestions were favorably received by the telephone company, were presented by them to the Public Service Commission and accepted by the latter. This result was brought about by the fixed determination of the association to see that any review and alteration of rates were based upon a proper scientific determination, and that all users might share, in proper proportion to the cost of their respective services, in any reduction of rates.

The effect of the association's attitude, therefore, was to supersede the pending proceedings to which the association objected, and to substitute therefor a broad and comprehensive proceeding which should determine rates upon a scientific basis with due regard to the rights of all classes of users, and with justice to the company itself.

The basis contended for by the association having been accepted by the Public Service Commission and the New York Telephone Company, the actual work of revision yet remains to be done. This will be undertaken by a staff of engineers and examiners selected by, and solely under the control of, the Public Service Commission, all of the expenses being paid by the telephone company.

An appraisal of the company's property will be made, the value of the property applying to the use of any particular class of patrons will be determined, and operating and overhead charges will likewise be ascertained and distributed pro rata to each class of users. By this procedure the costs of each class of service will be fully developed and rates can be made, on the basis of such costs, that will be fairly proportioned thereto.

Hitherto such a distribution of costs and charges has been impracticable, and it has necessarily followed that the commission has been unable to exercise its rate-making power with a knowledge of the facts essential to just determination. A revision of rates on the basis proposed will undoubtedly result in a scale of charges which will be entirely equitable and satisfactory to the public.